
**KR INVESTMENT LTD.
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
AUGUST 31, 2014 AND 2013**

KR INVESTMENT LTD.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
KR Investment Ltd.

We have audited the accompanying financial statements of KR Investment Ltd. which comprise the statements of financial position as at August 31, 2014 and 2013, and the statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of KR Investment Ltd. as at August 31, 2014 and 2013, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of KR Investment Ltd. to continue as a going concern.

Other Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 14 in the financial statements which explains that certain comparative information for the 2013 year has been restated.

Manning Elliott LLP

CHARTERED ACCOUNTANTS
Vancouver, British Columbia
December 23, 2014

KR INVESTMENT LTD.**STATEMENTS OF FINANCIAL POSITION****AS AT AUGUST 31, 2014 AND 2013**(Expressed in Canadian Dollars)

| | Note | 2014 \$ | 2013 (Restated – Note 14) \$ |
|--|------|-------------|---------------------------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash | | 130,115 | 131,017 |
| Accounts receivable | | 18,569 | 70,303 |
| GST recoverable | | 1,954 | 29,154 |
| Prepaid expenses | 8 | 5,932 | 6,840 |
| | | 156,570 | 237,314 |
| OPTION TO PURCHASE PETROLEUM AND NATURAL GAS PROPERTIES | 4 | - | 150,000 |
| PROPERTY AND EQUIPMENT | 5 | 1,427,028 | 1,552,800 |
| | | 1,583,598 | 1,940,114 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable and accrued liabilities | | 32,906 | 19,441 |
| Due to related parties | 8 | 14,243 | - |
| | | 47,149 | 19,441 |
| DECOMMISSIONING PROVISION | 6 | 259,167 | 289,738 |
| | | 306,316 | 309,179 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 7 | 2,118,207 | 2,118,207 |
| Contributed surplus | | 335,393 | 335,393 |
| Deficit | | (1,176,318) | (822,665) |
| | | 1,277,282 | 1,630,935 |
| | | 1,583,598 | 1,940,114 |

Going Concern (Note 1)

Commitment (Note 13)

Approved and authorized for issue on behalf of the December 23, 2014:

"Steve Loo"
Steve Loo, Director

"S. John Kim"
S. John Kim, Director

The accompanying notes are an integral part of these financial statements.

KR INVESTMENT LTD.**STATEMENTS OF LOSS AND COMPREHENSIVE LOSS****FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013**(Expressed in Canadian Dollars)

| | | 2014 | 2013 |
|--|---------------|-------------|-------------------------------|
| | | \$ | (Restated – Note 14) \$ |
| NET PETROLEUM AND NATURAL GAS REVENUES | Note | 290,456 | 193,025 |
| <hr/> | | | |
| DIRECT COSTS | | | |
| Production costs | | 122,741 | 54,906 |
| <hr/> | | | |
| GROSS OPERATING PROFIT | | 167,715 | 138,119 |
| <hr/> | | | |
| EXPENSES | | | |
| Accounting and legal | | 60,209 | 170,503 |
| Accretion of decommissioning provisions | 6 | 6,215 | 5,226 |
| Depletion | 5 | 116,943 | 75,128 |
| Directors' fees | 8 (d) | 8,000 | - |
| Consulting | 8 (a) and (b) | 115,250 | 51,915 |
| Office and miscellaneous | | 3,003 | 3,323 |
| Rent | 8 (c) | 28,800 | 10,200 |
| Share-based payments | 7 (c) | - | 282,359 |
| Telephone | | 1,627 | 1,567 |
| Transfer agent, filing, and listing fees | | 15,287 | 148,634 |
| Travel expense | | 16,603 | 17,561 |
| <hr/> | | | |
| | | 371,937 | 766,416 |
| <hr/> | | | |
| LOSS BEFORE OTHER INCOME | | (204,222) | (628,297) |
| <hr/> | | | |
| OTHER INCOME | | | |
| Interest income | | 569 | 200 |
| Impairment of option to purchase petroleum and natural gas properties | 4 | (150,000) | - |
| <hr/> | | | |
| | | (149,431) | 200 |
| <hr/> | | | |
| LOSS AND COMPREHENSIVE LOSS FOR THE YEAR | | (353,653) | (628,097) |
| <hr/> | | | |
| Net Loss Per Share – Basic and Diluted | | \$ (0.01) | (0.05) |
| <hr/> | | | |
| Weighted Average Number Common Shares Outstanding | | 24,100,000 | 13,785,479 |
| <hr/> | | | |

The accompanying notes are an integral part of these financial statements.

KR INVESTMENT LTD.**STATEMENTS OF CHANGES IN EQUITY****FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013**(Expressed in Canadian Dollars)

| | Share Capital | | | | |
|--|--|----------------------|---------------------------------------|-----------------------|---------------------|
| | Number of Common Shares | Amount \$ | Contributed Surplus \$ | Deficit \$ | Total \$ |
| As at August 31, 2012 (Restated – Note 14) | 6,000,000 | 317,207 | 53,034 | (194,568) | 175,673 |
| Issuance of common shares | 18,000,000 | 1,800,000 | - | - | 1,800,000 |
| Issuance of agent's shares | 100,000 | 10,000 | - | - | 10,000 |
| Share issuance cost | - | (9,000) | - | - | (9,000) |
| Share-based payments | - | - | 282,359 | - | 282,359 |
| Net loss and comprehensive loss | - | - | - | (628,097) | (628,097) |
| Balance, August 31, 2013 (Restated – Note 14) | 24,100,000 | 2,118,207 | 335,393 | (822,665) | 1,630,935 |
| Net loss and comprehensive loss | - | - | - | (353,653) | (353,653) |
| Balance, August 31, 2014 | 24,100,000 | 2,118,207 | 335,393 | (1,176,318) | 1,277,282 |

The accompanying notes are an integral part of these financial statements.

KR INVESTMENT LTD.**STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013**(Expressed in Canadian Dollars)

| | 2014 | 2013 |
|---|-------------|-------------------------|
| | | (Restated – Note 14) |
| | \$ | \$ |
| OPERATING ACTIVITIES | | |
| Net loss for the year | (353,653) | (628,097) |
| Items not involving cash: | | |
| Accretion | 6,215 | 5,226 |
| Depletion | 116,943 | 75,128 |
| Shares issued to sponsor for listing fees | - | 10,000 |
| Share-based payments | - | 282,359 |
| Impairment of option to purchase petroleum and natural gas properties | 150,000 | - |
| | (80,495) | (255,384) |
| Changes in non-cash components of working capital: | | |
| Account receivable | 51,734 | (70,303) |
| Amounts recoverable | 27,200 | (27,204) |
| Prepaid expenses | 908 | (6,547) |
| Accounts payable and accrued liabilities | 13,465 | 18,346 |
| Due to related parties | 14,243 | - |
| | 27,055 | (341,092) |
| INVESTING ACTIVITIES | | |
| Acquisition of petroleum and natural gas properties | (27,957) | (1,343,416) |
| Deposit for an option to acquire petroleum and natural gas properties | - | (150,000) |
| | (27,957) | (1,493,416) |
| FINANCING ACTIVITIES | | |
| Proceeds from share issuance | - | 1,800,000 |
| Share issuance cost | - | (9,000) |
| Repayments to related parties | - | (11,100) |
| | - | 1,779,900 |
| DECREASE IN CASH | (902) | (54,608) |
| CASH – BEGINNING OF YEAR | 131,017 | 185,625 |
| CASH – END OF YEAR | 130,115 | 131,017 |
| SUPPLEMENTAL DISCLOSURES | | |
| CASH FLOW INFORMATION | | |
| Interest | - | - |
| Income taxes | - | - |
| NON-CASH INVESTING AND FINANCING ACTIVITIES | | |
| Recognition of decommissioning provision | - | 284,512 |

The accompanying notes are an integral part of these financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

On August 3, 2010, KR Investment Ltd. (the "Company") was incorporated under the *Business Corporations Act* (British Columbia) as a Capital Pool Company ("CPC") as defined in TSX Venture Exchange Policy 2.4. The Company completed its initial public offering ("IPO") on March 24, 2011 and its common shares commenced trading on the TSX Venture Exchange ("TSX-V") on March 29, 2011.

The head office, principal address and records office of the Company are located at Suite 1601 – 1166 Alberni Street, Vancouver, British Columbia, V6E 3Z3. The Company's registered address is at the same address.

On March 27, 2013, the Company closed an Agreement of Purchase and Sale (the "Agreement") dated March 14, 2013 with a private company (the "Vendor") and acquired an undivided 20% working interest in certain petroleum and natural gas rights, certain related tangible assets and other miscellaneous assets (the "Purchased Assets") located in Alberta and currently has operations or assets capable of generating ongoing revenues (see Note 4). The transaction constituted the Qualifying Transaction of the Company under TSX Venture Exchange ("TSX-V") Policy 2.4 Capital Pool Companies, and was approved by the TSX-V on March 28, 2013. Effective April 1, 2013, the Company became a Tier 2 oil and gas issuer.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. During the year ended August 31, 2014, the Company had a net loss of \$353,653 and had an accumulated deficit of \$1,176,318 since inception. These factors raise significant doubt about the Company's ability to continue as a going concern. The continuance of the Company's operations is dependent on obtaining and maintaining sufficient debt or equity financing in order to realize the recoverability of the Company's investments in petroleum and natural gas properties, which is dependent upon the existence of economically recoverable reserves and market prices for petroleum and natural gas. Management is of the opinion that sufficient working capital will be obtained from financing and operations to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

The financial statements, including comparative figures, have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

(b) Basis of Measurement

The financial statements have been prepared on a historical cost basis except for financial instruments described in Note 3(f), which are measured at fair value. The accounting policies set out below have been applied consistently to all periods presented in these financial statements as if the policies have always been in effect.

2. BASIS OF PRESENTATION (continued)

(c) Functional and Presentation Currency

The financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of Estimates and Judgments

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts within the Financial Statements. Judgments, estimates and underlying assumptions are reviewed on a continuous basis and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In preparing the financial statements, management makes judgments regarding the application of IFRS for our accounting policies. Significant judgments relate to the determination of the recovery of accounts receivable, amortization, depreciation, depletion and impairment of property and equipment, petroleum and natural gas reserves, decommissioning provisions, deferred income tax assets and liabilities, and assumptions used in valuing options in share-based payments calculations. The financial statement areas that require significant estimates and judgments are set out in the following paragraphs:

Oil and Gas Accounting—Reserves Determination

The process of estimating reserves is complex. It requires significant estimates based on available geological, geophysical, engineering and economic data. To estimate the economically recoverable crude oil and natural gas reserves and related future net cash flows, we incorporate many factors and assumptions including the expected reservoir characteristics, future commodity prices and costs and assumed effects of regulation by governmental agencies. Reserves are used to calculate the depletion of the capitalized oil and gas costs and for impairment purposes as described in Note 3(b).

Property and Equipment

We evaluate our long-lived assets (petroleum and natural gas properties) for impairment if indicators exist. Cash flow estimates for our impairment assessments require assumptions and estimates about the following primary elements—future prices, future operating and development costs, remaining recoverable reserves and discount rates. In assessing the carrying values of our unproved properties, we make assumptions about our future plans for those properties, the remaining terms of the leases and any other factors that may be indicators of potential impairment.

Impairment Testing

Impairment testing is based on discounted cash flow models prepared by internal experts with assistance from third-party advisors when required. The inputs used are based on management's best estimates of what an independent market participant would consider appropriate and are reviewed by senior management. Changes in these inputs may alter the results of impairment testing, the amount of the impairment charges recorded in the statement of income and the resulting carrying values of assets.

2. BASIS OF PRESENTATION (continued)**(d) Use of Estimates and Judgments***Joint Arrangements*

The Company may be a party to an arrangement in which they do not have control. Judgment is required in determining whether joint control over such arrangements exists and if so, which parties have joint control and whether each arrangement is a joint venture or joint operation. In assessing whether the Company has joint control, management analyzes the activities of each arrangement and determines which activities most significantly affect the returns of the arrangement. These activities are determined to be the relevant activities of the arrangement. If unanimous consent is required over the decisions about the relevant activities, the parties whose consent is required would have joint control over the arrangement. The judgments around which activities are considered the relevant activities of the arrangement are subject to analysis by each of the parties to the arrangement and may be interpreted differently. When performing this assessment, the Company considers decisions about activities such as managing the asset during its life, acquisition, expansion and dispositions of assets, financing, operating and capital decisions. Management may also consider activities including the approval of budgets, appointment of key management personnel, representation on the board of directors and other items. If management concludes that we have joint control over the arrangement, an assessment of whether the arrangement is a joint venture or joint operation is required. This assessment is based on whether we have rights to the assets, and obligations for the liabilities, relating to the arrangement or whether we have rights to the net assets of the arrangement. In making this determination, management reviews the legal form of the arrangement, the terms of the contractual arrangement, and other facts and circumstances. In a situation where the legal form and the terms of the contractual arrangement do not give us rights to the assets and obligations for the liabilities, an assessment of other facts and circumstances is required, including whether the activities of the arrangement are primarily designed for the provision of output to the parties and whether the parties are substantially the only source of cash flows contributing to the arrangement. In such circumstances we may consider the application of other facts and circumstances to conclude that a joint arrangement is a joint operation is appropriate. This conclusion requires judgment and is specific to each arrangement.

Management has applied the use of other facts and circumstances to conclude that the extraction of petroleum and natural gas in the Provost Area in Alberta, BC in Canada (see Notes 4 and 5) is a joint operation for the purposes of the financial statements. The other facts and circumstances considered are the provisions for output to the parties of the joint arrangements. The Company will take its share of the output from the assets directly over the life of the arrangement. Management have concluded that this, combined with other factors, gives us direct rights to the assets and obligations for the liabilities of these arrangements, proportionate to the Company's ownership interest.

Cash Generating Unit (CGU)

The Company's assets are aggregated into cash-generating units ("CGUs"), based on the unit's ability to generate independent cash inflows. The determination of the Company's CGUs is based on management's judgments in regards to shared infrastructure, geographical proximity, resource type and materiality.

2. BASIS OF PRESENTATION (continued)

(d) Use of Estimates and Judgments (continued)

Decommissioning Provisions

In estimating our future asset retirement obligations, we make assumptions about activities that occur many years into the future including the cost and timing of such activities. The ultimate financial impact is not clearly known as asset removal and remediation techniques and costs are constantly changing, as are legal, regulatory, environmental, political, safety and other such considerations. In arriving at amounts recorded, numerous assumptions and estimates are made on ultimate settlement amounts, inflation factors, discount rates, timing and expected changes in legal, regulatory, environmental, political and safety environments.

Share-Based Payments

Management uses judgment when applying the Black-Scholes pricing model to determine the fair value of the options granted during the period and forfeiture rates. Volatility is calculated using historical trading data of the Company. The zero coupon bond yield per the bank of Canada is used as the risk-free rate.

Income Taxes

Judgments are made by management at the end of the reporting period to determine the likelihood that deferred income tax assets will be realized from future taxable earnings. Assessing the recoverability of deferred income tax assets requires the Company to make judgments related to the expectations of future cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in profit or loss in the period in which the change occurs.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and Cash Equivalents

Cash and cash equivalents include cash in bank accounts and when applicable, cashable securities that on acquisition have a term to maturity of three months or less, or may be redeemed during this period. Cash and cash equivalents are highly liquid marketable securities and deposits, which are designated as fair value through profit or loss and are recorded at their fair values with changes recognized in net loss. Fair values are determined by reference to quoted market prices at the balance sheet date. The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance to be cash equivalents. The Company did not have any cash equivalents at August 31, 2014 and 2013.

(b) Impairment of Long-Lived Assets

At each reporting date, the Company reviews the carrying amounts of its tangible assets to determine whether there are any indications of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**(b) Impairment of Long-Lived Assets (continued)**

Whether the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit ("CGU") to which the assets belongs. The recoverable amount is determined as the higher of fair value less direct costs to sell and the asset's value in use. In assessing value in use, the estimated future cash flows are discounted to their present value. Estimated future cash flows are calculated using estimated recoverable reserves, estimated future commodity prices and the expected future operating and capital costs. The pre-tax discount rate applied to estimated future cash flows reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. If the carrying amount of an assets or CGU exceeds its recoverable amount, the carrying amount of the asset or CGU is reduced to its recoverable amount through an impairment charge to the statement of loss and comprehensive loss.

Assets that have been impaired are tested for possible reversal of the impairment at each reporting date for any indications that the impairment loss may have reversed. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. When an impairment subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of depreciation, depletion and amortization) had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of impairment is recognized as a gain in the statement of comprehensive loss.

(c) Share Issuance Costs

Professional, consulting and regulatory fees as well as other costs directly attributable to financing transactions are reported as deferred financing costs until the transactions are completed, if the completion of the transaction is considered to be more likely than not. Share issue costs are charged to share capital when the related shares are issued. Costs relating to financing transactions that are not completed or for which successful completion is considered unlikely, are charged to operations.

(d) Basic and Diluted Earnings (Loss) Per Share

Basic and diluted earnings (loss) per share is computed by dividing the net earnings (loss) for the period available to common shareholders (numerator) by the weighted average number of common shares outstanding during the period (denominator). The Company applies the treasury stock method in calculating diluted earnings (loss) per share. Diluted earnings (loss) per share excludes all dilutive potential common shares if their effect is anti-dilutive. For the year ended August 31, 2014 and 2013, the existence of stock options causes the calculation of fully diluted loss per share to be anti-dilutive. Accordingly, fully diluted loss per share is equal to basic loss per share.

(e) Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Deferred income tax assets and liabilities are recognized to reflect the expected deferred tax consequences arising from temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously. Deferred tax assets are recognized only to the extent that it is probable that sufficient taxable profits will be available against which the asset can be utilized.

(f) Financial Instruments

Financial assets

All financial assets are initially recognized at fair value and are classified into one of four categories: financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity, loans and receivables or available-for-sale financial assets.

(i) Financial assets at fair value through profit or loss

Financial assets are classified as FVTPL if they are held for trading or are designated as such upon initial recognition. Financial assets at FVTPL are measured at fair value, and changes are recognized in profit or loss. Upon initial recognition transaction costs are expensed as incurred. The Company has classified its cash at FVTPL.

(ii) Held-to-maturity financial assets

Financial assets are classified as held-to-maturity if the Company has the positive intent and ability to hold them to maturity. These financial assets are recognized initially at fair value together with directly attributable costs, and are subsequently measured at amortized cost using the effective interest method less any impairment losses.

Any sale or reclassification of a more than significant amount of these assets not close to their maturity would result in the reclassification of all held-to-maturity financial assets as available-for-sale, and would prevent the Company classifying investment securities as held-to-maturity for the current and following two financial years. The Company has not classified any financial assets as held-to-maturity.

(iii) Loans and receivables

These assets are financial assets with fixed or determinable payments that are not quoted in an active market. These assets are recognized initially at fair value plus any directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method less any impairment losses. The Company has classified its accounts receivable as loans and receivables.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and any changes, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in other comprehensive income and presented within equity. When an available-for-sale financial asset is derecognized, the cumulative gain or loss in other comprehensive income is reclassified through profit or loss. The Company has not classified any financial assets as available-for-sale.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial Instruments (continued)

Financial liabilities

Financial liabilities are initially recognized at fair value and are classified into one of two categories: financial liabilities at FVTPL or other financial liabilities.

(v) Financial liabilities at fair value through profit or loss

These financial liabilities are acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are measured at fair value, and changes therein are recognized in profit or loss. The Company has not classified any financial liabilities as FVTPL.

(vi) Other financial liabilities

These financial liabilities are recognized initially at fair value plus any directly attributable transaction costs, and are subsequently measured at amortized cost using effective interest method. The Company has classified its accounts payable and due to related parties as other financial liabilities.

(g) Share-based payments

The Company grants share-based awards to employees, directors, officers and non-employees under its stock option plan. Share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments on the grant date. The fair value of share-based payments is determined using the Black-Scholes option pricing model, and each tranche is recognized on a graded-vesting basis over the period in which options vest. The amount recognized as a share-based payment expense during a reporting period is adjusted to reflect the number of awards expected to vest. The offset to this recorded cost is to contributed surplus. No expense is recognized for awards that do not ultimately vest. Share-based payment arrangements with non-employees in which the Company receives goods or services are measured based on the estimated fair value of the goods or services received, unless the fair value cannot be estimated reliably, in which case the Company will measure their value by reference to the fair value of the equity instruments granted.

When stock options are exercised, the proceeds received, together with any related amount in contributed surplus, are credited to share capital.

(h) Provisions

(i) Legal matters

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resourced embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows at a pre-tax rate. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**(h) Provisions (continued)****(ii) Decommissioning provisions**

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category. Decommissioning provisions are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the statement of financial position date. Subsequent to initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are recorded against the related asset. Actual costs incurred upon settlement of the decommissioning provisions are charged against the provision to the extent the provision was established.

(i) Property and equipment**Petroleum and natural gas properties**

Property and equipment includes crude oil and natural gas development and production assets, including costs incurred in developing oil and natural gas reserves and maintaining or enhancing production from such reserves and directly attributable general and administrative costs. Property and equipment is measured at cost, less accumulated depletion and depreciation and accumulated impairment losses.

Gains and losses on disposal of an item of property and equipment, including crude oil and natural gas interests, are determined by comparing the proceeds from disposal with the net carrying amount of property and equipment and are recognized within "gain or loss on sale of assets" in income (loss).

Subsequent measurement

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in earnings as incurred. Capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing on or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized at the time of replacement or sale. The costs of the day-to-day servicing of property and equipment are recognized in earnings as incurred.

Depletion and depreciation

The Company has made a voluntary change to its accounting policy for depletion of petroleum and natural gas properties. Refer to Note 14 for disclosure regarding the change. The net carrying value of development or production assets is depleted on a field by field basis using the unit of production method by reference to the ratio of production in the year to the related proven reserves. These estimated reserves are reviewed by independent reserve engineers at least annually.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Property and equipment (continued)

Proven reserves are estimated by independent reserve engineers in accordance with Canadian Securities Regulation National Instrument 51-101. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil. Changes in reserve estimates used in prior periods, such as proved reserves, that affect the unit-of-production calculations do not give rise to prior year adjustments and are dealt with on a prospective basis.

(j) Revenue recognition

Revenue from sales of petroleum and natural gas is recognized when title and risks and rewards of ownership pass to an external party, the amount of revenue and costs incurred or to be incurred in respect of the transaction can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company. Revenue is measured net of discounts, customs duties and royalties.

(k) Interests in Joint Arrangements

A joint arrangement can take the form of a joint venture or joint operation. All joint arrangements involve a contractual arrangement that establishes joint control, which exists only when decisions about the activities that significantly affect the returns of the investee require unanimous consent of the parties sharing control. A joint operation is a joint arrangement in which we have rights to the assets and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement in which we have rights to only the net assets of the arrangement.

Joint ventures are accounted for in accordance with the policy "Investments in Associates and Joint Ventures." Joint operations are accounted for by recognizing our share of the assets, liabilities, revenues, expenses and cash flows of the joint operation in our consolidated financial statements.

The Company's operations are conducted through joint operations where it holds a 20% working interest in a joint arrangement to conduct oil and gas exploration and development activities on the properties in Provost Area, Alberta.

(l) New accounting policies adopted during the year

The mandatory adoption of the following new and revised accounting standards on September 1, 2013 had no significant impact on the Company's financial statements for the years presented.

IFRS 10 Consolidated Financial Statements - IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 replaces SIC-12 Consolidation - Special Purpose Entities and parts of the previous IAS 27 Consolidated and Separate Financial Statements.

IFRS 11 Joint Arrangements - IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or a joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under IFRS 11, proportionate consolidation is no longer permitted.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) New accounting policies adopted during the year (continued)

IFRS 12 Disclosure of Interests in Other Entities - IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 Fair Value Measurement - IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes disclosures about fair value measurement.

IAS 1 Presentation of Financial Statements - In June 2011, the IASB issued an amendment to IAS 1, which requires entities to separately present items in other comprehensive income based on whether or not they may be reclassified to profit or loss in future periods.

IAS 27 Separate Financial Statements - As a result of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 27 Separate Financial Statements has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 has been reissued to only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

IAS 28 Investments in Associates and Joint Ventures - As a consequence of the issuance of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended to provide accounting guidance for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 is applied by all entities that are investors with joint control of, or significant influence over, an investee.

n) Accounting Standards and Amendments Issued But Not Yet Effective

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting periods beginning on or after January 1, 2014.

The following standards will be adopted effective September 1, 2014:

The following new standards, amendments and interpretations that have not been early adopted in these financial statements, are not expected to have a significant effect on the Company's future results and financial position:

IAS 36 Impairment of Assets - In May 2013, the IASB issued an amendment to address the disclosure of information about the recoverable amount of impaired assets or a CGU for periods in which an impairment loss has been recognized or reversed. The amendments also address disclosure requirements applicable when an asset's or a CGU's recoverable amount is based on fair value less costs of disposal. Management is currently evaluating the impact the final interpretation is expected to have on the Company's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Accounting Standards and Amendments Issued But Not Yet Effective (continued)

IFRIC 21 Levies - In May 2013, the IASB issued IFRIC 21, Levies ("IFRIC 21"), an interpretation of IAS 37, Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event ("obligating event"). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. Management is currently evaluating the impact the final interpretation is expected to have on the Company's financial statements.

l) Accounting Standards and Amendments Issued But Not Yet Effective

The following standards will be adopted effective September 1, 2017:

IFRS 15 – Revenue from Contracts with Customers - In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers*, which supersedes IAS 11 – *Construction Contracts*, IAS 18 – *Revenue*, IFRIC 13 – *Customer Loyalty Programmes*, IFRIC 15 – *Agreements for the Construction of Real Estate*, IFRIC 18 – *Transfers of Assets from Customers*, and SIC 31 – *Revenue – Barter Transactions Involving Advertising Services*. IFRS 15 establishes a comprehensive five-step framework for the timing and measurement of revenue recognition.

New accounting standards effective for fiscal years commencing no earlier than on or after January 1, 2018:

IFRS 9 Financial Instruments - IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: Amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at the fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, others gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

In December 2011, the IASB extended the mandatory effective date for IFRS 9 to on or after January 1, 2018 with early adoption permitted. As a result, there were amendments to IAS 32 Financial Instruments – Presentation to clarify the offsetting between financial assets and liabilities, which are mandatory effective on or after January 1, 2014. On November 19, 2013, the IASB issued amendments to IFRS 9 that (1) introduce a new "general hedge accounting model" to IFRSs; (2) remove the January 1, 2015, mandatory effective date from IFRS 9; and (3) allow entities to early adopt the provision in IFRS 9, as issued in 2010 (IFRS 9 (2010)), related to the presentation of changes in an entity's own credit risk within other comprehensive income (OCI).

The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

KR INVESTMENT LTD.**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013**

(Expressed in Canadian Dollars)

4. OPTION TO PURCHASE PETROLEUM AND NATURAL GAS PROPERTIES

On March 27, 2013, the Company closed an Agreement of Purchase and Sale (the "Agreement") dated March 14, 2013 with a private Alberta company (the "Vendor") and acquired an undivided 20% working interest in certain petroleum and natural gas rights, certain related tangible assets and other miscellaneous interest (the "Purchased Assets") located in Alberta. The transaction constitutes the Qualifying Transaction ("QT") of the Company under TSX Venture Exchange ("TSX-V") Policy 2.4 Capital Pool Companies, and was approved by the TSX-V on March 28, 2013.

As consideration for the Purchased Assets, the Company paid the Vendor the sum of \$1,339,000 in cash on the closing date, which was financed with a concurrent private placement. In addition, pursuant to an Option Agreement dated March 2013, the Vendor has granted the Company an option, exercisable on or before one year from the closing date to acquire the remaining 79.99% working interest (the "Optioned Assets") held by the Vendor for \$5,206,000, payable in cash. As consideration of the option, the Company paid the Vendor the sum of \$150,000 in cash on March 27, 2013. The Option Agreement is an option only and the Company is under no obligation to exercise the option or to complete the acquisition of the Optioned Assets.

As of March 27, 2014, the option remained unexercised and expired. The purchase cost of the option has been charged to operations in 2014.

The fair value of the purchase price of the acquired assets and assumed liabilities has been allocated as follows:

| | | |
|--------------------------------------|----|------------------|
| Net assets acquired: | | |
| Petroleum and natural gas properties | \$ | 1,623,512 |
| Decommissioning provisions | | (284,512) |
| | \$ | <u>1,339,000</u> |
| Consideration: | | |
| Cash | \$ | <u>1,339,000</u> |

During the year ended August 31, 2013, pursuant to a sponsorship agreement associated with the Qualifying Transaction, the Company paid a sponsor fee of \$40,000 and issued 100,000 common shares to the Sponsor with a fair value of \$10,000. The Company also incurred legal fees of \$82,550 in connection of the QT, which were expensed as incurred during the year ended August 31, 2013.

KR INVESTMENT LTD.**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013**(Expressed in Canadian Dollars)

5. PROPERTY AND EQUIPMENT

| | Petroleum and natural gas properties | |
|-------------------------------------|---|-----------|
| Cost: | | |
| Balance, August 31, 2012 | \$ | - |
| Additions | | 1,343,416 |
| Decommissioning costs | | 284,512 |
| Disposals | | - |
| Balance, August 31, 2013 (restated) | \$ | 1,627,928 |
| Additions | | 27,957 |
| Decommissioning costs | | (36,786) |
| Disposals | | - |
| Balance, August 31, 2014 | \$ | 1,619,099 |

| | Petroleum and natural gas properties | |
|-------------------------------------|---|---------|
| Accumulated depletion: | | |
| Balance, August 31, 2012 | \$ | - |
| Depletion | | 75,128 |
| Disposals | | - |
| Balance, August 31, 2013 (restated) | \$ | 75,128 |
| Depletion | | 116,943 |
| Disposals | | - |
| Balance, August 31, 2014 | \$ | 192,071 |

| | | |
|----------------------------------|----|-----------|
| Net book value: | | |
| As at August 31, 2013 (restated) | \$ | 1,552,800 |
| As at August 31, 2014 | \$ | 1,427,028 |

6. DECOMMISSIONING PROVISIONS

The following table presents the reconciliation of the opening and closing aggregate carrying amount of the decommissioning provisions associated with the petroleum and natural gas properties:

| | 2014 | | 2013 (Restated – Note 14) | |
|---|------|----------|---------------------------------|---------|
| Balance, beginning of year | \$ | 289,738 | \$ | - |
| Recognition of decommissioning provisions | | - | | 284,512 |
| Change in estimate | | (36,786) | | - |
| Accretion expense | | 6,215 | | 5,226 |
| Balance, end of year | \$ | 259,167 | \$ | 289,738 |

KR INVESTMENT LTD.**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013**

(Expressed in Canadian Dollars)

6. DECOMMISSIONING PROVISIONS (continued)

The present value of the obligation was calculated using an average risk-free interest rate of 2.46% (2013 – 1.84%) and an inflation rate of 2% (2013 – 2%). Reclamation activities are expected to occur between 2015 and 2035. The undiscounted value of the obligation is \$399,030 (2013 - \$356,602).

7. SHARE CAPITAL

(a) Authorized Share Capital: Unlimited number of common shares without par value.

(b) Issued and Outstanding Share Capital:

As at August 31, 2014 and 2013, 24,100,000 common shares are issued and outstanding.

Escrowed Shares: Pursuant to the escrow agreements, 4,000,000 common shares issued and outstanding were placed in escrow to be released in accordance with TSX Venture Exchange Policy 2.4 over a period of up to 36 months from the date of the Final Exchange Bulletin following the completion of the Qualifying Transaction. Accordingly, 1,200,000 common shares were released from escrow during fiscal 2014 (2013 – 400,000). At August 31, 2014, 2,400,000 common shares (2013 - 3,600,000 common shares) remained in escrow.

(c) Stock Options

The Company has established an incentive share option plan for granting options to directors, employees and consultants in accordance with Exchange policies. On June 3, 2013, the Company granted 2,000,000 stock options to directors and officers of the Company exercisable at a price of \$0.11 per share, from June 3, 2013 to June 3, 2023. The options vest fully on the date of grant. The fair value of the directors' and officers' stock options of \$282,359 were expensed during the previous fiscal year, which was determined using the Black-Scholes option pricing model with the following assumptions: an annualized volatility of 112%; an expected life of 10 years; a dividend yield rate and forfeiture rate of 0%; and a risk-free interest rate of 2.08%.

No stock options were granted during the year ended August 31, 2014.

(i) Directors' and Officers' Options

The following table summarizes the continuity of the Company's stock options outstanding:

| | Number of Shares | Weighted Average Exercise Price |
|---------------------------------------|---------------------|------------------------------------|
| Outstanding, August 31, 2012 | 600,000 | \$0.10 |
| Granted | 2,000,000 | \$0.11 |
| Expired | (300,000) | \$0.10 |
| Forfeited | (200,000) | \$0.10 |
| Outstanding, August 31, 2014 and 2013 | 2,100,000 | \$0.11 |

KR INVESTMENT LTD.**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013**(Expressed in Canadian Dollars)

7. SHARE CAPITAL (continued)

(c) Stock Options (continued)

As at August 31, 2014, the following incentive stock options are outstanding and exercisable:

| | Number of Options | Weighted Average Exercise Price | Expiry Date |
|----------------------------------|----------------------|--|----------------|
| Directors' and Officers' options | 100,000 | \$0.10 | March 29, 2021 |
| Directors' and Officers' options | 2,000,000 | \$0.11 | June 3, 2023 |
| | 2,100,000 | \$0.11 | |

As at August 31, 2014, the weighted average remaining life of the outstanding options was 8.66 years.

8. RELATED PARTY TRANSACTIONS AND BALANCES

The Company has identified its directors and certain senior officers as its key management personnel. The compensation costs for key management personnel and companies related to them were recorded as follows:

- During the year ended August 31, 2014, the Company paid a total of \$48,000 (2013 - \$20,000) in consulting fees provided by a company controlled by a director and officer of the Company.
- During the year ended August 31, 2014, the Company paid a total of \$60,000 (2013 - \$15,000) in consulting fees to a director and officer of the Company.
- During the year ended August 31, 2014, the Company paid a total of \$18,000 (2013 - \$7,500) for office premises provided by a company controlled by a director of the Company.
- During the year ended August 31, 2014, the Company incurred \$8,000 in directors fees (2013 - \$Nil) payable to the directors of the Company.
- The remuneration of the Company's key management:

| | 2014 | 2013 |
|--|-------------------|-------------------|
| Management fees, directors' fees and other short-term benefits | \$ 116,000 | \$ 35,000 |
| Share-based payments | - | 282,359 |
| Total | \$ 116,000 | \$ 317,359 |

These transactions were in the normal course of operations and have been measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Prepaid expenses at August 31, 2014 include \$5,775 prepaid to a company owned by a director and senior officer of the Company for consulting services and office rent (2013 - \$5,775).

Balance owing to related parties as at August 31, 2014 for services provided during the year was \$14,243 (2013 - \$Nil). The amounts owing to related parties are unsecured, non-interest bearing and are due on demand.

KR INVESTMENT LTD.**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013**(Expressed in Canadian Dollars)

9. INCOME TAXES

The following table reconciles the amount of income tax recoverable upon application of statutory Canadian federal and provincial income tax rates to the amount reported in these financial statements:

| | 2014 | 2013 |
|---|-------------|-------------------------|
| | | (Restated – Note 14) |
| | \$ | \$ |
| Net loss before income taxes | (353,653) | (628,097) |
| Canadian statutory income tax rate | 25.00% | 25.41% |
| Expected income tax recovery at statutory rate | (88,413) | (157,024) |
| Tax effect of: | | |
| Permanent differences and other | 330 | 68,772 |
| Change in unrecognized deferred income tax assets and other | 88,083 | 88,252 |
| Income tax recovery | - | - |

The significant components of the Company's deferred income tax assets are as follows:

| | 2014 | 2013 |
|---|-------------|-------------------------|
| | | (Restated – Note 14) |
| | \$ | \$ |
| Deferred income tax assets: | | |
| Non-capital losses carried forward | 136,626 | 110,208 |
| Share issuance costs | 7,413 | 14,037 |
| Petroleum and natural gas properties | 23,586 | (52,346) |
| Decommissioning provisions | 64,792 | 72,435 |
| Total deferred income tax assets | 232,417 | 144,334 |
| Unrecognized deferred income tax assets | (232,417) | (144,334) |
| Net deferred income tax assets | - | - |

The Company has non-capital losses for income tax purposes of \$546,505 (2013 - \$440,833) which may be carried forward and offset against deferred taxable income. The non-capital losses expire as follows:

| Year | Amount |
|------|------------|
| 2030 | 3,563 |
| 2031 | 56,352 |
| 2032 | 90,763 |
| 2033 | 290,153 |
| 2034 | 105,674 |
| | <hr/> |
| | \$ 546,505 |

KR INVESTMENT LTD.**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013**

(Expressed in Canadian Dollars)

10. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can ultimately provide returns for shareholders and benefits for other stakeholders. The board of directors does not establish quantitative return on capital criteria for management due to the nature of the Company's business. The Company does not pay dividends and is not subject to any externally imposed capital requirements.

As at August 31, 2014, the Company considers capital to consist of shareholders' equity. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue common shares or long-term debt.

11. FINANCIAL INSTRUMENTS AND RISKS**Financial instruments and fair value measurements**

The Company's financial instruments include cash, accounts receivable, accounts payable and amounts due to related parties. The Company classifies its cash as fair value through profit or loss, its accounts receivable as loans and receivables, and its accounts payable and amount due to related parties as other financial liabilities. The fair values of these financial instruments approximate their carrying values because of their current or on demand nature.

| | | 2014 | | 2013 |
|-----------------------------------|----|---------|----|---------|
| Fair value through profit or loss | \$ | 130,115 | \$ | 131,017 |
| Loans and receivables | | 18,569 | | 70,303 |
| Other financial liabilities | | 31,900 | | 19,441 |

Fair values of financial instruments are classified in a fair value hierarchy based on the inputs and used to determine fair values. The levels of the fair value hierarchy are as follows:

Certain financial assets and liabilities are measured at fair value on a recurring basis and classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Certain non-financial assets and liabilities may also be measured at fair value on a non-recurring basis. There are three levels of the fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value, with Level 1 inputs having the highest priority. The levels and the valuation techniques used to value the Company's financial assets and liabilities are described below:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data and require inputs that are both significant to the fair value measurement and unobservable.

KR INVESTMENT LTD.**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013**(Expressed in Canadian Dollars)

11. FINANCIAL INSTRUMENTS AND RISKS (continued)

Financial instruments and fair value measurements (continued)

The Company's financial assets and liabilities measured at fair value on a recurring basis as of August 31, 2014 are as follows:

| | Balance at August 31, 2014 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--------------------------|----------------------------------|--|---|--|
| | \$ | \$ | \$ | \$ |
| Financial Assets: | | | | |
| Cash | \$ 130,115 | \$ 130,115 | \$ - | \$ - |

For the non-financial assets and liabilities measured at fair value on a non-recurring basis, no fair value measurements were made during the years ended August 31, 2014 or 2013.

Financial Risks

The Company thoroughly examines the various financial instrument risks to which it is exposed, and assesses the impact and likelihood of those risks. Where material, these risks are reviewed and monitored by management. There have not been any significant changes from the previous year as to how these risks are reviewed and monitored by management. The types of financial instrument risk exposures and the objectives and policies for managing these risks exposures is described below.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is exposed to credit risk through its cash which is held with large Canadian financial institutions, and its accounts receivable which settle 60 days after the end of a monthly production cycle. The Company believes this credit risk is insignificant, however, as at August 31, 2014 cash exceeds the amounts covered by federal deposit insurance. The Company continuously monitors accounts receivable to minimize risk. As at August 31, 2014, the Company's maximum risk exposure to credit risk is the carrying value of cash and accounts receivable of \$148,684.

The following table provides information regarding the aging of financial assets that are past due but which are not impaired as follows:

| August 31, 2014 | Current | 31 – 60 days | 61 – 90 days | 91 + days | Carrying Value |
|---------------------|----------|-----------------|-----------------|-----------|-------------------|
| Accounts receivable | \$ 3,126 | 15,443 | \$ - | \$ - | \$ 18,569 |

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to short-term interest rates through the interest earned on cash balances; however, management does not believe this exposure is significant.

KR INVESTMENT LTD.**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013**(Expressed in Canadian Dollars)

11. FINANCIAL INSTRUMENTS AND RISKS (continued)**Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company's accounts payable and accrued liabilities, and amounts due to related parties are all current.

The Company ensures that it has sufficient capital to meet short-term financial obligations after taking into account its administrative obligations. Contractual undiscounted cash flow requirements for financial liabilities as at August 31, 2014 are as follows:

| | Less Than 1 Month \$ | 1 – 3 Months \$ | 4 months to Less Than 1 Year \$ | Years 1 – 3 \$ | Total \$ |
|---|----------------------------|-----------------------|---|----------------------|------------------|
| Accounts payable and accrued Liabilities | \$ 32,906 | \$ – | \$ – | \$ – | \$ 32,906 |
| Due to related parties | 14,243 | - | - | - | 14,243 |
| Sublease agreements (Note 13) | 900 | 1,800 | 8,100 | 11,700 | 22,500 |
| | <u>\$ 48,049</u> | <u>\$ 1,800</u> | <u>\$ 8,100</u> | <u>\$ 11,700</u> | <u>\$ 69,649</u> |

Foreign Exchange Risk

Foreign exchange risk is the risk related to the fluctuation of foreign exchange rates. The Company is not exposed to significant foreign exchange risk.

Commodity Price Risk

The Company's revenues and ability to raise capital to fund operating activities are subject to risks associated with fluctuations in the market price of its commodities. The Company closely monitors commodity prices to determine the appropriate course of actions to be taken.

The Company does not use derivative instruments or hedges to manage risks because the Company's exposure to credit risk, interest rate risk and currency risk is small.

12. MAJOR CUSTOMERS AND ECONOMIC DEPENDENCE

During the year ended August 31, 2014, sales to one customer accounted for 100% of the Company's total petroleum and natural gas revenues (2013 – 100%). As at August 31, 2014, the Company does not consider itself to be economically dependent on this customer as transactions with this party can be easily replaced by transactions with other parties on similar terms and conditions.

13. COMMITMENT

On June 1, 2013, the Company entered into a sublease agreement with a third party whereby the Company will pay annual rent payments of \$10,800 for subleasing office space in Calgary, Alberta. The sublease agreement expires on September 30, 2016. Required payments are as follows:

| | |
|------|------------------|
| 2015 | \$ 10,800 |
| 2016 | 10,800 |
| 2017 | 900 |
| | <u>\$ 22,500</u> |

13. COMMITMENT (continued)

Subsequent to the year ended August 31, 2014, the Company discontinued its sublease of the office space in Calgary.

14. CHANGE IN ACCOUNTING POLICY AND RESTATEMENT OF COMPARATIVE FIGURES**Voluntary Change in Accounting Policy**

The financial statements have been prepared on the basis of a retrospective application of a voluntary change in accounting policy relating to depletion of petroleum and natural gas properties. The new petroleum and natural gas depletion accounting policy is to deplete the Company's properties using units of production method by reference to the ratio of production in the year to the related proven reserves. Refer to Note 3(i) for the full detail of the new accounting policy.

The previous accounting policy was to deplete the Company's properties using units of production method by reference to the ratio of production in the year to the related proven and probable reserves and future development costs. The new accounting policy was adopted on August 31, 2014 and has been applied retrospectively. Management judges that the change in policy will result in the financial statement providing more relevant and no less reliable information because it leads to a more accurate depletion expense amounts as this approach does not include the use future development costs that may be difficult to substantiate. Given the significance of possible future development costs and uncertainty related to recoverability of probable reserves, it was considered appropriate to change the accounting policy. The depletion expense was recalculated using proved only reserves and the value of the Company's petroleum and natural gas properties adjusted for any additions or dispositions and change in decommissioning liability. This has resulted in an increase of depletion expense of \$2,603 for the year to August 31, 2013.

The carried forward value of petroleum and natural gas properties as at August 31, 2013 has decreased by \$2,603 and accumulated deficit has increased by \$2,603.

The voluntary change in accounting policy has no impact on 2012 comparative figures.

Decommissioning Liability Revaluation

During the year management determined that it was necessary to restate the Company's previously issued financial statements for the year ended August 31, 2013. It was determined the Alberta Energy Regulator (AER) guidance represents a more accurate decommissioning cost estimate than the management's previous estimate. Accordingly, the decommissioning estimate per AER was used.

The adjustment resulting from the correction in accounting for the decommissioning liability is calculated to be an increase of the decommissioning liability of \$221,634, an increase in property and equipment of \$196,586, an increase in accretion expense of \$4,922 and depletion expense of \$20,126 in 2013. No adjustment is required to 2012 comparative figures.

The financial statements for the years ended August 31, 2013 and 2012 have been restated to correct for this error. The impact of the restatement and the change in accounting policy described above has been summarized on the following page.

KR INVESTMENT LTD.**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013**(Expressed in Canadian Dollars)

14. CHANGE IN ACCOUNTING POLICY AND RESTATEMENT OF COMPARATIVE FIGURES
(continued)**Decommissioning Liability Revaluation (continued)**

| | Previously Reported | Adjustment for change in accounting policy | Adjustment for restatement | Restated |
|--|------------------------|---|-------------------------------|--------------|
| <hr/> | | | | |
| Year ended August 31, 2013 | | | | |
| Statement of Loss and Comprehensive Loss | | | | |
| Accretion expense | \$ 304 | \$ - | \$ 4,922 | \$ 5,226 |
| Depletion expense | 52,399 | 2,603 | 20,126 | 75,128 |
| Loss and comprehensive Loss | 600,446 | 2,603 | 25,048 | 628,097 |
| Loss per common shares, basic and diluted | \$ (0.04) | | \$ (0.01) | \$ (0.05) |
| <hr/> | | | | |
| As at August 31, 2012 | | | | |
| Statement of Financial Position | | | | |
| Deficit | \$ (194,568) | \$ - | \$ - | \$ (194,568) |
| <hr/> | | | | |
| As at August 31, 2013 | | | | |
| Statement of Financial Position | | | | |
| Property and equipment | \$ 1,358,817 | \$ (2,603) | \$ 196,586 | \$ 1,522,800 |
| Decommissioning liability | 68,104 | - | 221,634 | 289,738 |
| Deficit | \$ (795,014) | \$ (2,603) | \$ (25,048) | \$ (822,665) |
